

HOUSE BILL REPORT

SSB 6874

As Reported by House Committee On:
Finance

Title: An act relating to tax incentives for persons who extract, manufacture, or process timber and timber products.

Brief Description: Providing tax incentives for the timber and timber products industries.

Brief History:

Committee Activity:

Finance: 2/22/06, 2/27/06 [DPA].

Brief Summary of Substitute Bill
(As Amended by House Committee)

- Reduces the business and occupation tax rate from 0.484 percent to 0.2904 percent for manufacturing and wholesaling wood products.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass as amended. Signed by 9 members: Representatives McIntire, Chair; Hunter, Vice Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern, Ericks, Hasegawa, Santos and Shabro.

Staff: Rick Peterson (786-7150).

Background:

The business and occupation (B&O) tax is levied for the privilege of doing business in Washington. The tax is levied on the gross receipts of all business activities conducted within the state. There are no deductions for the costs of doing business. Although there are nine different rates, the most common rates are 0.471 percent for retailing, 0.484 percent for manufacturing and wholesaling, and 1.5 percent for service activity.

Preferential B&O tax rates have been provided by the Legislature in recent years for aerospace and semiconductor microchips as tax incentives.

Summary of Amended Bill:

A B&O tax rate of 0.2904 percent is provided for extracting or extracting for hire timber, or manufacturing or processing for hire timber and timber products into pulp, paper, lumber, and engineered wood products, and to sales by these persons of the timber and wood products at wholesale. The preferential tax rate expires July 1, 2024.

Amended Bill Compared to Substitute Bill:

The amendment allows the lower B&O rate for any extractor or manufacturer of the timber or wood product, not just in-state extractors and manufacturers. The amendment phases in a lower B&O rate; 0.3872 percent applies from January 1, 2007 to January 1, 2009, and 0.2904 percent applies from January 1, 2009 through July 1, 2024. The amendment allows the lower B&O rates for those who manufacture and sell the products out-of-state but not for in-state sales.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended Bill: The bill takes effect 90 days after adjournment of session in which bill has passed, except sections 1 through 3 and 5 relating to the reduced B&O tax rates for extracting and manufacturing, which take effect January 1, 2007.

Testimony For: Thousands of jobs have been lost in the wood products industry due to the reduction in state and federal timber harvests. International competition is also an issue. There is pressure from Wall Street for our vertically integrated firms to separate off the manufacturing side of the businesses. The bill uses the same tax rate that kept Boeing here. The industry has gone through major changes, and this bill brings the costs of doing business in Washington down and make us more competitive in the world market. The pulp and paper companies will get the largest benefit. They provide good high paying jobs. Washington landowners operate at the highest environmental standards. The 40 percent reduction in rate is significant. Firms are facing pressure from increasing insurance, labor, and fuel costs. This is about recognizing Washington's forest products industry. Washington needs a strong vibrant forest industry to continue planting trees. The woods products industry provides high wage jobs with benefits. The number of sawmills has been reduced to one-third of the 1980 level. Canada is a competitor on lumber, and China is a competitor on paper. Oregon has lower taxes on manufacturers. The pulp and paper industry provides family wage jobs with excellent benefits. It is a very capital intensive industry, more than aerospace or aluminum. The cost of making pulp and paper is higher in Washington. Asian mills are making and selling products for half of what it costs in Washington.

Testimony Against: None.

Persons Testifying: Senator Doumit, prime sponsor; George Kirkmeyer, Contract Loggers Association; Rick Dunning, Washington Farm Forestry Association; Steve Tveit, Vaugen Brothers and Washington Forest Products Association; Raymond Tennison, Simpson

Investment Company; Llewellyn Matthews, Northwest Pulp and Paper Mills; Robert Hemslee, Association of Washington Pulp and Paper Workers; and Collins Sprague, AVISTA Corporation.

Persons Signed In To Testify But Not Testifying: None.